

# Industry Sector Analysis

## JAPAN

### JBIC ODA PROJECTS

Taizo Ohmura  
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AUTHOR: TAIZO OHMURA

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#### Summary

The Japan Bank for International Cooperation (JBIC) and Japan International Cooperation Agency (JICA) implements Japan's Official Development Assistance (ODA) programs. In principal, JICA programs are generally tied, while JBIC programs offer untied loans and grants. Because JBIC projects are more accessible for US firms, this report will focus on JBIC's, so-called "yen loan" projects. Yen loan projects offer various business opportunities to US construction firms, including architectural design firms, civil-engineering consulting firms, specialty consulting firms, general contractors and goods suppliers. The value of yen loans in Japanese Fiscal Year (JFY) 1999 was 1,050 billion yen (approximately US \$9 billion) on a total commitment basis. Yen loan programs are expected to remain stable, providing many attractive, potential business opportunities for US construction firms. Particularly in such areas as energy and utility development, large-scale construction projects, transportation development and environmental conservation projects. A key to success in winning yen loan projects is the collection of information relating to the projects as they are determined by the Ministry of Foreign Affairs, Ministry of Finance, Ministry of International Trade and Agency and Economic Planning Agency. This information is based on the "official request" submitted by recipient countries. US firms can participate in yen loan projects either as a prime contractor or as sub-contractors to the primes.

#### 1. Market Overview

The total value of yen loans in JFY 1999 was 1,050-billion yen or US \$9 billion on a total commitment basis; this represents a five- percent decrease over the previous fiscal year. (The total amount of yen loans in JFY 1998 was 1,110 billion yen.) The decreases were mainly attributed to Japan's tight budget, an effect of the stagnant domestic economy. In JFY 2000, yen loans will be abated slightly, due to decreases in economic restoration loans for other Asian countries. However, the market size of yen loan projects is still significant, and will continue to offer diverse business opportunities to US construction firms.

JBIC has provided loans to many projects in which US firms' expertise can be demonstrated (e.g., energy and utility development, large-scale construction projects, transportation development and environmental conservation projects). In addition to the above sectors, US firms have utilized their geographical advantages. According to industry sources, US firms tend to enjoy a greater competitive advantages in Latin America countries, while Japanese and Korean firms are more likely to be dominant in Southeast Asian countries.

Apart from US service industries (e.g., design/consulting firms and general contractors), suppliers of equipment, materials and machinery have also identified good business opportunities. Thus the specific types of services and equipment required by recipient countries vary according to the nature of the yen loan project. For example, if a US firm has special expertise in power plant construction, the energy/utilities sector will become the best sales prospect. Therefore, US firms should determine target sectors in accordance with their expertise.

Major yen loan sectors and potential business opportunities for US firms follow:

#### Energy/Utilities Development:

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US firms have been successful in winning yen loan projects in this area requiring high-grade technologies for system design, construction of power plants, installation work of generation-related machines and equipment and other relevant areas, including electrification and gas production and peripheral environmental protection.

#### Transportation:

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U.S firms have been awarded large-scale transportation projects, including construction of seaports, airports, roads, highways, railroads and tunnels.

#### Telecommunications:

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Yen-loan projects have been implemented for establishing advanced information networks. However, projects that require highly sophisticated information technologies (e.g., establishment of Internet networks) have not yet emerged. Recipient countries have so far requested more basic telecommunications projects, such as telephone systems, navigation systems and environmental surveillance systems utilizing satellite services.

#### Environmental Protection:

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JBIC has recently put an emphasis on environmental protection for recipient countries, including goods and services to reduce, air pollution, water pollution and water supply and sewerage development.

## 2. Market Trends

The Government of Japan has endeavored to cope with international criticism that ODA funds tend to flow back to Japan via a preponderance of awards to Japanese firms in major yen loan projects. In JFY 1999, procurement from Japanese firms declined to 20% of the total procurement. However, recently, Japanese industries have begun to complain about the small share of Japanese firms and have started to lobby for increases in Japanese involvement. Under these circumstances, the Government of Japan is considering ways to comply with those requests made by Japanese industries. The Government of Japan is also checking into the possibility of expanding grant aid projects that are in principal, Japan-tied. However, recipient countries are still in need of yen

loans to support their economic and industrial infrastructure. Therefore, principal projects that contribute toward those infrastructure developments will remain as major areas of yen loan projects.

Marketing strategies vary in accordance with the goods or services that US firms seek to supply. Strategies also differ according to the type of customer; i.e., whether they will be bidding directly on a tender from the borrower (direct procurement) or will seek to be a subcontractor to the private firm which wins the role as prime contractor. Regardless of whether they are pursuing direct procurement or subcontracting, most successful US firms routinely cultivate the following parties:

- (1) The RCG (Recipient Country Government) - all relevant ministries/agencies;
- (2) Japanese firm(s) that are (or are likely to be) involved in the JBIC-financed project;
- (3) Local JBIC offices/JBIC representatives at Japanese Embassies abroad and JBIC Headquarters in Tokyo.

Marketing to RCG may seem more like a "government relations" exercise than conventional marketing or sales. To conduct such activities successfully, US firms should be familiar with:

- (1) The political context and responsibilities of the procuring agency;
- (2) Inter-agency relationships;
- (3) Relationships between government and industry; and
- (4) Cultural and commercial practices in the country.

For example, in most East Asian countries, "human networking" tends to be a key to success and a host of informal relationships may complement, or even overshadow, the formal structure. It takes time to become familiar with business practices and establish human networks in many countries. Successful US firms tend to target geographical areas or individual countries where their goods/services should be marketed, and to concentrate on laying a long-term foundation in those countries. To pursue a specific JBIC project, it is important to contact the division in the RCG that is in charge of the project. Contact points for projects are included in JBIC press releases. Therefore, convincing the RCG of the advantages of goods/services is essential.

Marketing activities directed at JBIC officials basically fall into the realm of public relations since JBIC is not the immediate client. JBIC officials, both in local offices and at the headquarters in Tokyo, make a great effort to collect technical information to assist in carrying out projects. However, they cannot keep abreast of fast-changing technologies. It is, therefore, worthwhile for US firms to visit JBIC, either at local offices or headquarters, to provide the latest information. JBIC is generally the only institution that knows the exact stage of development of individual loan projects. Japanese industry sources state that it usually takes five years or more from the time the "seed" of an JBIC-financed project is planted for it to bear fruit as an actual JBIC-financed project.

"Check points" for a general marketing strategy for JBIC-financed projects:

Marketing strategies vary in accordance with goods/services, customers, and the stage of development of the project. Nevertheless, at the risk of oversimplifying, the following is a list of "checkpoints" for a generic strategy:

Check Point 1: Have you reviewed the general nature and rules of the game of JBIC-financed programs?

\*If you have not, then you should contact the JBIC to review general publications such as the JBIC Annual Report (1999).

Check Point 2: Have you selected the geographic areas in which to concentrate your activities?

\* In general, it is a good idea to focus on specific geographical areas or countries in order to maximize the effectiveness of your marketing activities.

- Check Point 3: Have you prepared marketing information (if possible, in Japanese and/or the language of the recipient country) on your goods/services which will help JBIC and/or RCG understand the contributions which you can make to specific projects and larger development goals?
- Check Point 4: Have you visited the targeted RCG to introduce your firm and market your goods/services?
- Check Point 5: Have you visited JBIC (whether a local office or its headquarters in Tokyo)?
- Check Point 6: Have you sent your marketing information to relevant Japanese firms to cultivate "goodwill" for future cooperation?
- Check Point 7: Have you identified specific JBIC-financed projects of interest?
- Check Point 8: If yes, have you determined the stage of development of these projects?
- Check Point 9: Have you begun marketing activities for specific projects to specific customers (e.g., RCG and Japanese firms to tie up with)?
- Check Point 10: If the project has moved beyond the Loan Agreement stage and entered the procurement phase, have you obtained procurement/tender information from the RCG?
- Check Point 11: Have you reviewed participation conditions (e.g., pre-qualifications) for these procurements?
- Check Point 12: Have you duly applied for the procurement? Or have you contacted the winner of the project to sell goods/services as a subcontractor?

### 3. Import Market

According to data compiled by JBIC, yen loans on a commitment basis are USD 8,400 million and 9,300 million, in JFY 1998 and 1999 respectively. Commercial Service Tokyo estimates that the same amount of loans as JFY 1999 will be extended in JFY 2000. Third-country imports occupy the majority portion of yen loan project procurements for yen projects. The share of third-country competitors was larger than 50% in JFY 1998. These were mainly power plant development consultants, road development consultants, general contractors, environment consultants and machine and equipment suppliers and installers.

Various US firms have been awarded yen loan projects, either as prime contractors or subcontractors. JBIC does not publish the data that sums up those two types of procurements. According to the estimates by Commercial Service Tokyo, US firms have been awarded in three fiscal years, approximately USD 100 - 200 million as prime contractors and USD 300 - 400 million as subcontractors, including independent sales of goods.

#### YEN LOAN MARKET (Commitment Basis: US Dollar in Millions)

<u>1998</u>	<u>1999</u>	<u>2000</u>
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Total Yen Loans	8,400	9,300	9,300*
Japanese Firms' Contracts	2,500	2,800	3,300*
Sales by non-Japanese Firms	5,900	6,500	6,000*

(Source: JBIC Annual Report 1999)

#### 4. Competition

The major players taking advantage of yen loan projects are called, "ODA industries (ODAI)" in Japan. They are Japanese trading firms, consulting firms and general contractors. They often have strong local offices in recipient countries that offer Japanese industry strong competitive advantage in developing long-term contacts among local decision-makers, including government officials and local firms.

Major Japanese ODAI companies that have been awarded major yen loan projects are:

Consulting firms:

- Toden Sekkei Co. (Consulting Firm: Power Plant Development)
- Electric Power Development Corporation International. (Consulting Firm: Power Plant Development)
- Sanyu Consulting Co. (Consulting Firm: Agriculture Development)
- Nihon Koei Co. Ltd. (Civil engineering Consulting)
- Dainippon Consultant Co. (Consulting Firm: Road Development)
- Nippon Joho Tsushin Consulting Co. (Consulting Firm: Telecommunications Networking)
- NTT International Co. (Consulting Firm: Telecommunications Networking)

General trading firms:

- Sumitomo Corp.
- Mitsui & Co.
- Mitsubishi Corp.
- Marubeni Corp.
- Itochu Corp.

Gathering information prior to the exchange of notes (E/N) is the key to win the competition. However, there is no simple way to do this since such early information gathering necessarily rests on informal networking and skillful conjecture. For example, one clue might be a visit by a key Japanese politician to the developing country.

Another source of early information is Japan's ODAI firms. One of the reasons why ODAI firms have early information is that there are many cases where a developing country has difficulty identifying a suitable yen project and must develop an "official request" for the GOJ. Japanese ODAI firms, particularly large trading firms, often help identify prospective projects, lobby the local government to request the GOJ for JBIC funding and assist the requesting Government with research and development of proposals. These actions by ODAI are called "seed planting" which is carried out before any "official request" is actually made.

US firms may also wish to collect information by studying various country plans issued by JICA and other relevant GOJ agencies. In contrast to country reports prepared by USAID, which include very specific information, such as possible future project names, GOJ country reports tend to present only general information on the needs of a developing country. However, it still is worthwhile for US firms to visit the JICA Library at JICA headquarters where various ODA reports are available for review. This is especially true since JICA studies often foreshadow JBIC projects (although there is no formal connection between the two). JICA is currently publishing a series of "Country Studies for Development Assistance" compiled in English by JICA's Country Study Group.

## 5. End Users

Recipient country governments (RCG) can be regarded as the "end users" of yen loans. RCGs must submit an "official request" to apply for yen loans to the GOJ. The contents of the "official request" vary in accordance with the needs for the country's social and economic development. As stated above, there are cases in which the recipient country prepares an "official request" on its own, and other cases in which they receive assistance in drafting the "official request" from other developed countries' firms. The contents of a country's "official requests" indicate which projects will ultimately receive yen loans. JBIC examines the "official request" and approves/disapproves yen loan projects from the "official requests." RCG usually employ consulting firms to carry out international tenders. Those tenders are carried out in accordance with the "JBIC Procurement Guidelines." US firms can apply for the tender at the relevant office of RCG. Then bids are generally conducted on the basis of the procurement specifications prepared by RCG and the consulting firms.

## 6. Sales Prospects

Best-prospect yen loan projects vary in accordance with the expertise of US firms. Large-scale yen projects expected in the future include:

### (1) Energy/power development projects:

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In general, energy/power development is quite important for developing countries attempting to improve their industrial infrastructure. On the other hand, developing countries tend to lack sufficient technologies and goods to construct modern power plants. Construction of power plants need advanced expertise in designing power related systems, constructing the building, installing power related machine/equipment/ and transmission facilities. Thus energy/power projects offer diverse business opportunities to US firms.

### (2) Transportation projects:

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Developing countries need effective construction of economic infrastructure, including roads, bridges, railroads, ports and harbors, and physical distribution facilities. US general contractors, civil engineering consulting firms, goods suppliers (e.g., airport facilities) can find good business opportunities in this sector.

### (3) Telecommunications projects:

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Developing countries are endeavoring to improve their telecommunications networks. Specialty consulting firms (e.g., telephone and broadcasting systems) and general contractors may find business opportunities here.

### (4) Other projects:

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Environmental projects:

Environmental conservation is one of the most difficult topics for developing countries facing international attention regarding the greenhouse effect, reforestation, acid rain, desertification, and ozone degradation. There are still many developing countries that need to construct water supply/drainage and water treatment facilities.

Education (e.g., human resources development and vocational education):

Recently, development using yen loans have diversified. In JFY 1999, JBIC carried out some projects aimed at rescuing developing countries from their monetary woes. Although JBIC projects have prioritized so-called "hard-ware" development by providing advanced goods and services, recently, "soft-ware" assistance, including human resources development and structural improvement of industries have begun to be highlighted by recipient countries.

## 7. Market Access

RCGs are supposed to conduct bid/contract procedures for yen loan projects on their own in accordance with the "JBIC Procurement Procedures." JBIC, on the other hand, must supervise RCGs to follow the procedures. However, there have been many cases where the consulting firms are entrusted by RCGs to prepare tender documents and project specifications. This is because some RCGs lack sufficient advanced knowledge to solely complete the preparation documents. Therefore, if the consulting firm does not use fair procedures, the applicants for the project are not evaluated fairly. Success or failure with a JBIC project may depend on the role of the consulting firm. As stated, since there have also been many cases where Japanese trading firms find candidate yen projects and suggest that RCGs submit "official requests" to the GOJ, there is always the possibility that these trading firms have "designed in" the same goods and services that the trading firms are vending. Under these circumstances, US firms are recommended to carefully examine the nature of the project, as well as the tender documents (and specifications) prior to applying for the project. To prevent those problems, US firms are recommended to read the "JBIC Procurement Guidelines" prior to applying for a project.

## 6. Key Contacts

### Japan Bank for International Cooperation (JBIC)

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Director, Public Information Division  
Policy Planning and Coordination Department  
Address: 1-4-1, Ohtemachi, Chiyoda-ku, Tokyo  
Phone: (03)5218-3101 Fax: (03)5218-3955

Internet homepage: <http://www.jbic.go.jp/>

### Japan International Cooperation Agency (JICA)

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Director, Administration Division, Procurement Department  
Address: Shinjuku Maynds Tower Building, 2-1-1, Yoyogi, Shibuya-ku, Tokyo  
Phone: (03)5352-5330 Fax: (03)5352-5171

Internet homepage: <http://www.jica.ific.or.jp>

### Commercial Service Tokyo (CS Tokyo):

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Mr. Taizo Ohmura, CS Tokyo, US Embassy of Japan  
Address: 1-10-5, Akasaka, Minato-ku, Tokyo  
Phone: (03)3224-5079 Fax: (03)3589-4235

Email: [Taizo.Ohmura@mail.doc.gov](mailto:Taizo.Ohmura@mail.doc.gov)

## ISA Customer Satisfaction Survey

U.S. Department of Commerce  
\* International Trade Administration\*  
The Commercial Service

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The U.S. Department of Commerce would appreciate input from U.S. businesses that have used this ISA report in conducting export market research. Please take a few moments to complete the attached survey and fax it to 202/482-0973, mail it to QAS, Rm. 2002, U.S. Department of Commerce, Washington, D.C. 20230, or

Email: Internet[Opfer@doc.gov].

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\* \* \* About Our Service \* \* \*

1. Country covered by report: \_\_\_\_\_

Commerce domestic office that assisted you (if applicable): \_\_\_\_\_

2. How did you find out about the ISA service?

- ☐ Direct mail
- ☐ Recommended by another firm
- ☐ Recommended by Commerce staff
- ☐ Trade press
- ☐ State/private newsletter
- ☐ Department of Commerce newsletter
- ☐ Other (specify): \_\_\_\_\_

3. Please indicate the extent to which your objectives were satisfied:

- 1-Very satisfied    2-Satisfied
- 3-Neither satisfied nor dissatisfied
- 4-Dissatisfied    5-Very dissatisfied
- 6-Not applicable

- ☐ Overall objectives
- ☐ Accuracy of information
- ☐ Completeness of information
- ☐ Clarity of information
- ☐ Relevance of information
- ☐ Delivery when promised
- ☐ Follow-up by Commerce representative

4. In your opinion, did using the ISA service facilitate any of the following?

- ☐ Decided to enter or increase presence in market
- ☐ Developed an export marketing plan
- ☐ Added to knowledge of country/industry
- ☐ Corroborated market data from other sources
- ☐ Decided to bypass or reduce presence in market
- ☐ Other (specify): \_\_\_\_\_

5. How likely would you be to use the ISA service again?

- ☐ Definitely would
- ☐ Probably would
- ☐ Unsure
- ☐ Probably would not
- ☐ Definitely would not

6. Comments:

\_\_\_\_\_

\* \* \* About Your Firm \* \* \*

1. Number of employees: ☐ 1-99 ☐ 100-249 ☐ 250-499  
☐ 500-999 ☐ 1,000+

2. Location (abbreviation of your state only): \_\_\_\_\_

3. Business activity (check one):

☐ Manufacturing

☐ Service

☐ Agent, broker, manufacturer's representative

☐ Export management or trading company

☐ Other (specify): \_\_\_\_\_

4. Export shipments over the past 12 months:

☐ 0-1 ☐ 2-12 ☐ 13-50 ☐ 51-99 ☐ 100+

May we call you about your experience with the ISA service?

Company name: \_\_\_\_\_

Contact name: \_\_\_\_\_

Phone: \_\_\_\_\_

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Thank you--we value your input!

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